

**Report of Housing Leeds**

**Report to Chief Officer Property and Contracts**

**Date: 07<sup>th</sup> May 2014**

**Subject: Clyde's Biomass Community Heating Scheme**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. To procure a contractor to design, construct and operate a community heating system including a biomass boiler. The community heating system will replace the current electrical heating system in Clyde Court, Clyde Grange and Phil May Court in New Wortley. The objectives of the procurement are to reduce residents' bills for heating and hot water and to deliver a reduction in the carbon footprint for the delivery of heating to the dwellings. ARUP have been appointed as technical advisers through the Leeds City Council Technical Framework to provide technical advice, provide a reference design, develop the output specification and to provide advice on the commissioning of the system.
2. Installation of the system will be jointly funded by LCC HRA Account, ERDF funding and ECO subsidy. Spending of the ERDF portion of the money needs to be completed by the end of September 2014 to qualify for ERDF funding, however officers are confirming the possibility of extending this deadline to November 2014 with the funding administrators at Kirklees Council. Installation of the system can continue beyond this point. In order to achieve this, it is proposed that procurement and an application for planning permission are carried out concurrently. To achieve the EDRF and ECO funding the project is to be procured through the Leeds City Council Green Deal and ECO Framework Partnership.
3. Since removal of the current heating and installation of a new heating system to residents needs to be achieved without decanting residents and will involve some inconvenience for these residents. Also given the uncertainty over ECO rates due to

the current Government consultation, this will be evaluated as part of the quality element rather than the price, it is proposed to not use the standard price / quality split within the tender and instead use a 40% price/ 60% quality split to reflect the greater need for quality planning and communication in this project and agreement is sought for this.

4. . The installation contractor will maintain and operate the plant for a period of 24 months during the defect liability period, with Civic Enterprise Leeds (CEL) taking over the responsibility for maintenance from the end of that period. The project has been approved as part of the wider HRA capital programme approved by the LCC Executive Board in February 2014.
5. The total cost for the provision of the system has a pre-tender estimate of £ 2.3 million. It is expected that £550K will be recovered through ERDF and £440k through ECO funding. The annual maintenance cost for the system is estimated to be £65K per annum. However whilst the system is in operation it estimated that it will generate revenues of £146k per annum from heat sales and Renewable Heat Incentive (RHI) payments. Over 20 years it is estimated that the installation will generate a net surplus of £315K.

## **Recommendations**

1. To give approval in line with CPR 3.1.8 to undertake a procurement exercise using the Leeds City Council Green Deal and ECO Framework Partnership to appoint a contractor to design, construct and install a biomass community heating system for the Clyde's and Phil May Court.
2. To approve the use of a 40% price /60% quality split in the evaluation of submitted tenders.

## **1 Purpose of this report**

- 1.1 To seek authority to undertake a procurement exercise using the Leeds City Council Green Deal and ECO Framework Partnership to appoint a contractor to design, construct and install a biomass community heating system for the Clyde's and Phil May Court.

## **2 Background information**

- 2.2 WNWH successfully applied £1,277,920 of ERDF funding for 2010-2014 to part fund the installation of community heating in the 264 dwellings in the Clyde's and Phil May Court and external wall insulation to 60 Wimpey No Fines dwellings in New Wortley. This funding was awarded as part of the region-wide Big Energy Upgrade programme.
- 2.3 The BIG Energy Upgrade programme (also known as Energy Innovation for Deprived Communities) is a unique consortium of six Local Authorities, Social Housing Providers, Yorkshire Energy Services, the University of Sheffield and Kirklees Council's Investment and Regeneration Service as the Lead Accountable Body. The programme totals £14.7m of which £7m is funded by the Yorkshire and Humber European Regional Development Fund Programme (ERDF) 2007 to 2013, one of the funds established by the European Commission to help local areas stimulate their economic development by investing in projects which support local businesses and create jobs. The ERDF programme is managed by the Department for Communities and Local Government (DCLG). The aim of this innovative programme is to deliver energy efficiency and renewable energy projects within a minimum of 12 of the most deprived communities across the six Local Authorities within the Yorkshire and Humber. Overall, the programme will create 114 new jobs and safeguard a further 87 in related sectors.
- 2.4 A condition of the funding is that all of the proposed works progress, in order to be able to claim the project outputs in terms of jobs created/safeguarded and financial leverage.
- 2.5 The Wimpey No Fines programme was completed in 2012 delivering external wall insulation to almost 400 properties, as part of a larger CESP funded programme.
- 2.6 An outline feasibility report for the Biomass Community Heating System was completed by ARUP in January 2012 but was not acted upon. A small project group made up of technical officers from Housing Leeds, Environment Policy Team and the Energy Unit commissioned ARUP in September 2013 to turn this into a reference design and output specification that would enable us to procure a delivery partner. The first draft was completed in November 2013.
- 2.7 To give the project momentum, Housing Leeds agreed for PPPU/PU to take on a technical/project management role and to take a lead the development of the project.
- 2.8 To claim the full entitlement of ERDF funding allocated to this project, the council must have spent at least £1.4m on eligible capital costs by the end of [September

2014]. Installation work can continue past this point. Eligible capital costs include costs for buildings, plant and equipment bought and installed and for equipment bought but not installed.

### **3 Main Issues**

- 3.9 Keepmoat, Willmott Dixon and SSE Contracting were appointed to the Leeds City Council Green Deal and ECO Framework Partnership in May 2013. This framework will last until May 2014 but a DDN was approved on 21<sup>st</sup> March 2014 by the Director of Environments and Housing to extend this framework until November 2014. Already commissioned projects can continue to be installed past the appointment of an LCR partner and so there is sufficient time for the installation to be completed within the framework.
- 3.10 Appointment to the framework allows the three contractors to offer ECO measures to private households in a specified area of Leeds and to bid for specific ECO subsidised projects released by Leeds City Council.
- 3.11 A mini-tender containing the reference design and output specification drawn up by ARUP, details of the planning application submitted, details of consultation already carried out, requirements for how the project contractors must liaise with residents during the removal of the current electrical heating system and installation of a wet heating system and the evaluation methodology and questions will be issued to the three contractors on the framework in early May 2014 with tenders returned in mid June 2014.
- 3.12 The tenders will then be evaluated using a 40% price and 60% quality split and the winning contractor appointed to install the scheme. Given the uncertainty over ECO rates due to the current Government ECO consultation, this will be evaluated as part of the quality element rather than price.
- 3.13 The installation contractor will maintain and operate the plant for a period of 24 months during the defect liability period, with Civic Enterprise Leeds (CEL) taking over the responsibility for maintenance from the end of that period. It is intended that there will be a 3 month handover period were CEL would work alongside the installation contractor to fully understand the principles and systems. The project team are currently working to the following timescales -

Approval to procure via Green Deal – 30<sup>th</sup> April 2014

Planning Approval – w/c 26<sup>th</sup> June 2014

Tender Period – 8<sup>th</sup> May 2014 – 11<sup>th</sup> June 2014

Evaluation of tenders – 13<sup>th</sup> June – 30<sup>th</sup> June

Award Contract – 9<sup>th</sup> July

Start on site – w/c 31<sup>st</sup> July

Scheme completion – February 2015

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 Residents within Clyde Grange and Clyde Court along with the residents from Phil May Court have all been consulted on the scheme initially by means of a letter delivery and free post response form. Response from this process suggests a strong desire for the scheme to go ahead. 65 responders were in favour and 8 responders were against the scheme. The response form was formatted to say that a non-response would suggest that the customers didn't feel strongly enough either way. In addition a consultation event was arranged with all residents and local Ward members were invited. Approximately 20 residents attended this event, response was positive and any small concerns have already been addressed.
- 4.1.2 A further series of consultation events were held on the 10<sup>th</sup>/11<sup>th</sup> and 12<sup>th</sup> February. The purpose of this consultation was to understand the energy usage of the customers and the price they are paying for this energy. This will help us to assess what savings could be made with the new district heating system. We asked to see tenants' last twelve months electricity bills, if they were happy to share these, either by sending copies or by arranging an appointment slot on the consultation days. The response to invites to the event was limited but the team rang around the customers actively trying to book in an appointment slot with them and also door knocked on site during the three days to engage with tenants.
- 4.1.3 Local members have been kept informed of the proposed scheme and a team from Housing Leeds have presented the scheme to the local resident's forum on Monday 17<sup>th</sup> March.
- 4.1.4 Further consultation will be held with residents prior to the start of the installation programme and ongoing throughout the project as required.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 The Clydes and Phil May Court, located in Armley are in a CSCO area which means it is in the 15% most deprived LSOAs in the country. Phil May Court is a sheltered housing complex and so is lived in by elderly and vulnerable people. The electrical heating system currently used is expensive and residents are more likely to be in fuel poverty than the average for Leeds. As the aim is to achieve a 10% reduction in fuel bills in year 1, and regular review of the heat sale price to remain competitive, installation of a community heating system will reduce the number of residents living in fuel poverty as well as reducing carbon emissions. The heating system will cover all the residents in the two multi-storey blocks and sheltered housing complex. The effect of the scheme in reducing deprivation is beneficial to equality and there should be no effect on the cohesion of the neighbourhood as the heating changes are available to every resident.
- 4.2.2 An equality impact screening report accompanies this report.

### **4.3 Council policies and City Priorities**

4.3.1 The Vision for Leeds 2011 to 2030 acknowledges that climate change is one of the three major challenges that have emerged since the last Vision was published in 2004 and has a specific aim to ensure that “all homes are of a decent standard and everyone can afford to stay warm.”

4.3.2 The Vision is supported by the City Priority Plan 2011 to 2015, which brings together a number of key four-year priorities that will help us deliver the 2030 Vision. It is supported by five separate action plans that address the five key themes. Of these, two contain priorities which are directly relevant to the strategy:

- Best city... for business:
  1. Support the sustainable growth of the Leeds’ economy.
  2. Improve the environment through reduced carbon emissions.
- Best city... to live:
  1. Maximise regeneration investment to increase housing choice and affordability within sustainable neighbourhoods.
  2. Enable growth of the city whilst protecting the distinctive green character of the city.
  3. Improve housing conditions and energy efficiency.

### **4.4 Resources and value for money**

4.4.1 It is estimated that the total capital cost for the full installation of this biomass community heating system (construction of the energy centre, gas/biomass boilers and ancillary equipment, heat distribution and new wet central heating in the flats) including prelims, fees, other indirect costs and a risk budget of 20% will be £2.3m.

4.4.2 Funding for this scheme is quite complex and comes from a number of sources (ERDF and ECO capital funding, plus RHI and energy sales, minus operating costs).

4.4.3 The figures shown for grant funding are the maximum currently available, the ERDF funding is dependent on interim payments being presented by the contractor where 43% of the total will be rebated back to the Authority. Eligible work and material will be prioritised to claim the maximum amount of funding available but there is a cut off for these claims of September, we have been told this may be extended to the end of November. The ability to draw this money down before the cut-off date will affect the overall operational surplus.

4.4.4 Total capital costs, initial grants, annual income and annual operating costs are shown in the table below, together with an estimate of costs over a 20 year period.

Total capital costs		Notes
Energy Centre	£362,760	
District Heating	£980,129	
Prelims and other indirect costs	£574,825	
Risk budget (20%)	£383,543	
<b>Total capital costs</b>	<b>£2,301,258</b>	
<b>Maximum grants available</b>		
ECO grant	£440,534	Claimed on completion by contractor
ERDF grant	£550,169	Claimed by HRA monthly in arrears, to be claimed before end Sept
<b>Total grants</b>	<b>£990,703</b>	
<b>Total initial costs (capital cost - grants)</b>	<b>£1,310,555</b>	

Annual revenue costs and income		
Total income	£146,370	RHI (claimed quarterly) and monthly heat sales
Total O&M	£65,044	Fuel costs, billing, maintenance
<b>Net annual operational surplus</b>	<b>£81,326</b>	

20 year simple sum		
Costs	£1,310,555	
Operational surplus	£1,626,529.86	
<b>Overall cost</b>	<b>-£315,975</b>	estimate to make a net surplus of c£315k over 20 years.

**Excludes cost of capital, equipment replacement, avoided costs (storage heat replacement, avoided major rewire)**

4.4.5 It should be noted that these figures do not include the cost of capital, inflation or the avoided cost of not replacing broken storage heaters.

4.4.6 The capital programme approved by Leeds CC Exec Board has the following provision for this scheme –

Proposed Capital Scheme	2014/15 £000's	2015/16 £000's
Clyde's MSF – ERDF District Heating System	1.667.0 of which £166k included	0

	is ERDF funding	
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4.4.7 In discussion with Capital Finance, the additional £384,169k of ERDF funding we expect to receive needs injecting into the Capital Programme. The Directorates Capital Finance Manager has confirmed that this injection can be picked up in the Q1 Capital Programme Report. Written confirmation of ERDF funding is to be provided to the Directorates Capital Finance Manager so the tender can be undertaken while the injection is confirmed.

4.4.8 As LCC will not be paying out the ECO funding through the contract this does not need to be injected into the capital programme.

4.4.9 Our best estimate is that the project will lead to a net income of c£315k to the Council over 20 years, whilst saving residents c10% on their fuel bills each year.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 There are no significant legal implications.

4.5.2 This decision is not open to call in.

#### **4.6 Risk Management**

4.6.3 There are risks inherent in the limited timescale to procure and install the system and to the various funding streams, however PPPU/PU are managing the procurement and wider project and a risk log has been developed to quantify and identify mitigating actions for the risks identified.

4.6.4 The highest risk to the project has been identified as a failure to deliver the predicted amount of ERDF funding and the limited timescale to deliver ERDF eligible works. Mitigating actions have been put in place by identifying the items that are ERDF eligible, ensuring that this information is passed on to the bidders and that information is included in the tender documents regarding the importance of maximising the ERDF eligible spend.

4.6.5 RHI is regularly reviewed, though the rate is fixed plus RPI uplift once the heating system is commissioned and registered. Reviews are quarterly and rates may go up or down. The next review is in March when prices will rise, but it is not known what will happen at the June Review.

4.6.6 The amount of ECO is currently uncertain due to changes brought in by the Autumn Statement. But this is unlikely to be resolved until Autumn 2014 and so is outweighed by the risk of not claiming ERDF funding.

4.6.7 It is impossible to rule out further policy changes so we will focus on getting the project completed as quickly as possible to minimise this risk.

### **5 Conclusions**



- 5.1 The project needs to go ahead both to benefit the residents of Clyde Court, Clyde Grange and Phil May Court and to fulfil our ERDF project commitments spend of which needs to take place before the end of [September 2014].
- 5.2 Installation of a biomass community heating system will reduce carbon emissions and remove people from fuel poverty both priorities for Leeds City Council.
- 5.3 In order to comply with funding timescales and contractual commitments procurement needs to take place with the Leeds City Council Interim Green Deal and ECO Framework. To achieve value for money a mini-tender within the framework should be used.
- 5.4 This is a complex technical project and PPPU/PU have agreed to appoint sufficient resources to manage the project.

## **6 Recommendations**

- 6.1 To give approval in line with CPR 3.1.8 to undertake a procurement exercise using the Leeds City Council Green Deal and ECO Framework Partnership to appoint a contractor to design, construct and install a biomass community heating system for the Clyde Court, Clyde Grange and Phil May Court.
- 6.2 To approve the use of a 40% price/ 60% quality split in the evaluation of submitted tenders.

## **7 Background documents<sup>1</sup>**

- 7.1 None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.